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25X1

7 September 1973

Central Intelligence Bulletin

CONTENTS

CAMBODIA: Battle for Kompong Cham enters third week.
(Page 1)

WEST GERMANY: Bonn prepares for negotiations on off-setting costs of stationing US forces in West Germany.
(Page 2)

25X1

CHILE: Strikes and political turmoil continue.
(Page 4)

SUDAN: Disorders prompt Numayri to return home.
(Page 5)

USSR:

25X1

25X1

INTERNATIONAL MONETARY DEVELOPMENTS: British announcement helps ease pressure on sterling. (Page 7)

JAPAN: Political trends seem to be running in government's favor. (Page 8)

CHINA: Computer developments. (Page 10)

25X6

FOR THE RECORD: (Page 13)

25X1



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CAMBODIA: The defenders of Kompong Cham remain under strong Khmer Communist pressure. As the battle for the city enters its third week, the insurgents are attacking government lines from three directions. Only a few insurgents managed to infiltrate the center of the city on 5 September, but they have not yet been rooted out.

Government paratroops have set up a new defensive line across the southern section of the city to prevent further infiltration in that area. Other government forces moving along Route 7 west of Kompong Cham made some slight headway yesterday, while two paratroop battalions at the airfield northwest of Kompong Cham are making their way back to the city to help shore up its defenses. In the meantime, 300 additional reinforcements have arrived by helicopter from Phnom Penh. There are now between 5,500 and 6,000 troops defending Kompong Cham. Insurgent forces are estimated between 4,000 and 5,000 troops.

To the west, the Khmer Communists on 6 September launched new attacks against Route 5. An insurgent ground attack and shellings of several Cambodian positions along the highway 35 miles northwest of Phnom Penh have stopped all traffic on the road. A clearing operation apparently is under way, but no details are available. There has been no change in the situation along Route 4, which is still closed 15 miles southwest of the capital. Overland access between Phnom Penh and the port of Kompong Som has been interdicted since 26 August.

25X1

7 Sep 73

Central Intelligence Bulletin

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WEST GERMANY: The Bonn government will consider next week its position on such matters as force improvement schemes, NATO burden-sharing, and the imminent bilateral negotiations on a new two-year agreement to offset the costs of stationing US forces in West Germany.

Finance Minister Schmidt earlier this week confirmed to Senator Mondale that Bonn will offer no significant increases in key elements of the current offset agreement--procurement of military items in the US for West German forces and rehabilitation of US barracks in West Germany. These items amounted to about \$1.1 billion at the current exchange rate. Schmidt and Foreign Office officials, moreover, anticipate that even with ancillary items, the German package will fall far short of US expectations.

West German officials are also taking the position that the offset package should be regarded as Bonn's sole contribution to the NATO-wide burden-sharing effort. They doubt that other alliance members will agree to any meaningful contributions during NATO's current burden-sharing explorations, and they fear that the UK may press Bonn for new relief of its balance-of-payments deficits incurred by the British Army of the Rhine.

The West Germans clearly are under strong, conflicting pressures on offset. Although prepared to conclude an agreement that would go far toward meeting US desires, Bonn must keep in mind domestic opinion and the likelihood that there would be strong criticism if it appeared that West Germany was being asked to contribute more than its fair share to the common defense.

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25X1

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CHILE: Violence accompanying massive pro- and anti-government marches has again demonstrated the depth of national divisions.

The transport strike drags on, other strikes have been called by commercial and professional groups, and the Christian Democrats reportedly have discussed the possibility of leading a nationwide general strike. They are more likely, however, to confine themselves to such maneuvers as censuring members of the President's cabinet.

In his dealings with the navy, President Allende appears to have headed off one confrontation by getting the Popular Unity coalition to deny that a statement issued by its executive committee accused the service of subversive activity against the government. Another issue that may be resolved soon is the naming of a new navy commander in chief.

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The navy's attempt to strip Socialist Party chief Altamirano of his congressional immunity and charge him with inciting mutiny in the ranks is still cause for presidential concern, however.

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SUDAN: President Numayri cut short his attendance at the nonaligned conference yesterday to take charge of a deteriorating situation at home. To cope successfully with the serious threat to his regime, Numayri will have to restore order and rescind emergency security measures without appearing to have capitulated to the political opposition, led by the Muslim Brotherhood and the Communist Party.

The week-long disorders came to a head Wednesday when the key Railway Workers Union went on strike to protest what it views as the government's over-reaction to student demonstrations. A few other unions joined the rail workers in response to a call for a general strike. The army quickly moved into Atbara, the headquarters of the Railway Workers Union, 170 miles northeast of Khartoum, to quell disorders there; an evening curfew is now in effect. If the rail strike is prolonged, it will create a critical shortage of consumer goods that is certain to turn the popular mood against the government.

Numayri may make conciliatory moves toward the labor unions. Unlike the Muslim Brotherhood and the Communists, who are calling for Numayri's ouster, the unions are criticizing the government's occasionally heavy-handed tactics in controlling demonstrators, the arrest of protesting union leaders and lawyers, and the closure of schools.

In facing the crisis, Numayri will have to curb an inclination for intemperate action; in the past, pragmatic advisers have restrained him. The loyalty of the army thus far strengthens Numayri's hand as he tries to solve his current problems.

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USSR: The pace of the grain harvest accelerated last week because of generally favorable weather in the New Lands. About two thirds of the grain area had been threshed by 3 September, somewhat above the average for 1970-72.

Earlier in the season, wet weather in the European USSR put the harvest behind schedule and rains continued to hamper threshing operations there. The grain area cut but not threshed is unusually large, more than twice the average of the previous three years. Farmers are being urged to accelerate threshing in order to reduce harvesting losses, but excess moisture has probably already lowered the quality of the unthreshed grain lying in windrows.

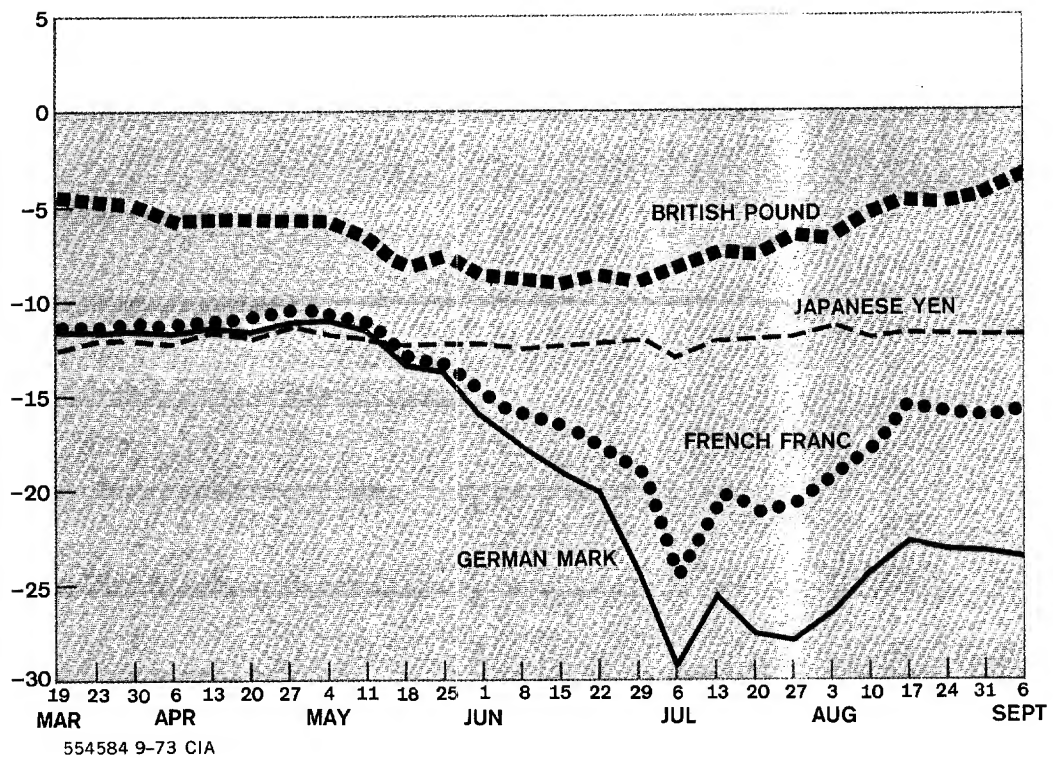
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In the New Lands of west Siberia and Kazakhstan, however, the early ripening of the grain crop decreased chances for losses due to early frosts.



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PERCENT CHANGE SINCE 2 JANUARY 1973
IN THE VALUE OF THE US DOLLAR RELATIVE
TO SELECTED FOREIGN CURRENCIES



INTERNATIONAL MONETARY DEVELOPMENTS: Pressure on sterling eased yesterday after the British Government announced that it would guarantee Commonwealth countries holding sterling reserves against exchange losses. In a rash of early-morning selling, the pound fell to \$2.38, its lowest point since early February, before recovering to close at \$2.42.

The announcement earlier this week of a substantial second-quarter trade deficit and the expectation that August trade figures will show a further deterioration were the primary factors in the sterling drop. In addition, money market concern over London's commitment to an expansionary fiscal policy and labor difficulties will continue to put pressure on the pound.

Sterling sellers chose to convert their holdings into other West European currencies, resulting in gains for these currencies relative to the dollar. The sterling rally late yesterday helped the dollar to make up most of the week's losses against the West European currencies.

JAPAN: A breakdown in opposition party unity and a recent display of unexpected Liberal Democratic strength suggest that political trends may now be running in the government's favor.

Last month the moderate Komeito reversed a commitment to join the Socialists and Communists in running the Tokyo assembly, and instead threw in its lot with the Liberal Democrats. This has been followed by increasingly harsh criticism of the Communists, and Komeito may soon reject its earlier stated goal of coalition with the Communists at the national level.

The Socialist Party has also begun to back away from the Communists. Earlier this summer, the party withdrew from a local alliance of 20 years' standing to oppose the re-election of the Communist mayor in Kyoto. Socialist cooperation with the Communists in the past had helped the Communists win control of major cities but had left the Socialists without much influence in city hall.

Komeito and Socialist reassessment of their alliance with the Communists may have been sparked by the outcome of the Tokyo municipal elections in July. The Communist Party failed to make major gains as expected, whereas the strong performance of the Liberal Democrats was surprising. This political upset suggested that the general election late last year may have created a misleading impression of Communist strength. Many politically moderate Japanese voted for the party in 1972 to prod the government into doing more in the fields of environmental protection and social welfare. But recent media speculation that the conservatives might lose control of the Upper House of the Diet in 1974 appears to have weakened the popular conviction that protest votes can be cast without jeopardizing the continued Liberal Democratic rule that most voters still seem to favor.

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7 Sep 73

Central Intelligence Bulletin

8

In the months ahead, Komeito and the Socialists will probably expend as much effort attacking the Communists as they do criticizing the government. This is bound to benefit the Liberal Democrats. The Communists are in the best position to erode conservative strength in future Diet elections, but the party's feuding with the rest of the opposition could result in aggressive Communist campaign tactics that would alienate some prospective voters.

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CHINA: The Chinese announcement in late August of the development of a new, large digital computer could have been intended to influence pending COCOM negotiations for revising controls on the export of strategic materials and technology to Communist countries. The computer is said to perform at five times the speed of the largest Chinese computer previously known and could be comparable in performance to US computers initially marketed in 1965.

Peking may have made the announcement to support arguments by Western manufacturers that the sale of advanced computers to China should be permitted because the Chinese have domestic computers with performance exceeding the current export control guidelines. The announcement immediately preceded recent bilateral US-Japanese talks on computer export controls and was used by Japan to support its position favoring the sale of advanced computers to China.

[REDACTED]

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25X1

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International Oil: The ministerial meeting of the Organization of Arab Petroleum Exporting Countries (OAPEC) on 4 September did not discuss the question of using oil as a political weapon, [REDACTED]

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[REDACTED] Contrary to Cairo radio's claim, the subject was only briefly mentioned. The meeting expressed unanimous but low-key support for Libya's 51-percent nationalization of several oil companies. [REDACTED]

Cuba - India - North Vietnam: Fidel Castro, who is now in Algiers at the Conference of Nonaligned Nations, will go to India and North Vietnam after the conference closes. He will be in New Delhi on 10 September, and then spend ten days to two weeks in Hanoi. [REDACTED]

25X1

**These items were prepared by CIA without consultation with the Departments of State and Defense.*

7 Sep 73

Central Intelligence Bulletin

13

25X1

25X1

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